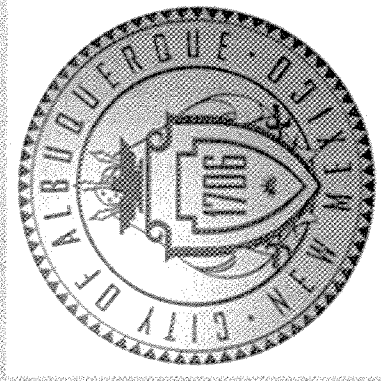


City of Albuquerque

Legislative Investments and Pensions Oversight Committee



Lou Hoffman
Director, Department of Finance



GASB 45 – Post Employment Benefits Unfunded Accrued Liability



City of Albuquerque, NM

Without Trust (4% Discount Rate)	= \$60,846,100
With Trust (6% Discount Rate)	= <u>46,967,940</u>
Savings	\$13,878,160

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HOUSE BILL 577

52ND LEGISLATURE - STATE OF NEW MEXICO - FIRST SESSION, 2015

INTRODUCED BY

David E. Adkins

AN ACT

RELATING TO PUBLIC FINANCES; ALLOWING A MUNICIPALITY WITH MORE
THAN TWO HUNDRED THOUSAND INHABITANTS TO ESTABLISH A MUNICIPAL
POST-EMPLOYMENT BENEFIT TRUST.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO:

SECTION 1. [NEW MATERIAL] MUNICIPAL POST-EMPLOYMENT
BENEFIT TRUST FUND.--

A. A municipal post-employment benefit trust may be
established, maintained and used by a municipal treasurer with
the advice and consent of the municipal board of finance.

B. The municipality's contributions to the
municipal post-employment benefit trust shall be irrevocable,
and the money in the trust shall be dedicated exclusively to
funding post-retirement benefits pursuant to the provisions of
the trust established by the municipal treasurer.

.199958.1

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1 C. Money in a municipal post-employment benefit
2 trust shall be invested pursuant to the Uniform Prudent
3 Investor Act and the provisions of this section. Earnings and
4 income from investment of money in the municipal post-
5 employment benefit trust shall be credited to the trust.

6 D. The municipal treasurer shall serve as the
7 trustee and may use the services of a trust company to manage
8 the investment of money in the municipal post-employment
9 benefit trust.

10 E. As used in this section:

11 (1) "municipal post-employment benefit trust"
12 means an investment fund established, maintained and used by a
13 municipality exclusively for the purposes permitted under
14 Section 115 of the Internal Revenue Code of 1986;

15 (2) "municipality" means an incorporated city
16 that has a population of more than two hundred thousand people
17 according to the most recent federal decennial census; and

18 (3) "trust company" means an individual or a
19 company, corporation, firm, partnership or other legal entity
20 that provides investment services pursuant to the Trust Company
21 Act and that agrees to adhere to the provisions of the Uniform
22 Prudent Investor Act.

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.199958.1

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current and previously issued FIRs are available on the NM Legislative Website (www.nmlegis.gov) and may also be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR Adkins ORIGINAL DATE 3/6/15 LAST UPDATED 3/12/15 HB 577/aHGEIC
SHORT TITLE Municipal Post-Employment Benefit Trust SB _____
ANALYST Malone

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY15	FY16		
	NFI		

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Attorney General's Office (AGO)

New Mexico Municipal League (NMML)

Department of Finance and Administration (DFA)

SUMMARY

Synopsis of HGEIC Amendment

The House Government, Elections, and Indian Affairs Committee amendment to House Bill 577 narrows the scope of the legislation such that municipalities can establish a "life insurance benefits trust" specifically, rather than a more general post-retirement benefit trust. The amendment also adds state-chartered or national banks to the definition of "trust company."

Synopsis of Original Bill

House Bill 577 authorizes a municipality, defined as an incorporated city with a population of more than 200 thousand people according to the most recent federal decennial census, to establish a post-employment benefit trust. The trust may be established, maintained, and used by a municipal treasurer with the advice and consent of the municipal board of finance. Money in the trust shall be invested pursuant to the Uniform Prudent Investor Act and must be exclusively dedicated to funding post-retirement benefits.

FISCAL IMPLICATIONS

None noted.

SIGNIFICANT ISSUES

1. In the wake of the Government Accounting Standards Board (GASB) calling for revised standards for state and local government pensions, other post-employment benefit trusts appear to be a growing option to offset the costs of health care for retired municipal employees.¹ These trusts can also cover costs associated with other benefits, such as life insurance, disability, legal, and other services when those benefits are provided separately from a pension plan. The trusts may serve as a reserve to account for the difference between projected health care costs for retirees and actual costs.

The Government Finance Officers Association (GFOA) has produced best practices for the establishment and administration, governance, and sustainability of post-employment benefit trusts.² Included among the GFOA recommendations are:

- Prefund obligations for postemployment benefits once it is determined that the employer has incurred a substantial long-term liability. In most cases, employers can make long-term investments to cover these obligations through a separate trust fund that should, over time, result in a lower total cost for providing postemployment benefits.
 - Sponsoring entities provide a clear, well-documented governance structure to guide governing bodies and plan administrators, as a good governance structure establishes the framework for effective plan administration.
 - Developing principles and priorities to guide decision making that consider benefit design, actuarial costs and projections, funding approaches, and the needs of all stakeholders and carefully evaluating and designing benefits to ensure that they are sustainable
2. Currently, Albuquerque is the only city that would qualify for this trust fund based on population requirements. The second largest city in New Mexico, Las Cruces, has only about 100 thousand residents according to the 2013 census estimates.

DFA notes that Albuquerque provides life insurance to its employees, which is reduced by 50% upon retirement. As a result of GASB 45, Albuquerque and other local governments are required to book the actuarial liability of benefits plans such as the life insurance plan, rather than expensing the annual costs.

With the city's current authority, they may only use a fixed income discount rate of 4 percent. However, with this bill, Albuquerque would have the ability to utilize a trustee to establish a diversified portfolio which may include equities and other investments, thus allowing the city could increase their discount rate to 6 percent or higher. With a higher discount rate, the amount of the unfunded liability would fall. According to DFA, the city estimates that this would be approximately \$15 million. Additionally, a diversified

¹ GASB standards for post-employment benefit trusts can be found at

http://www.gasb.org/opeb#section_2

² The full reports can be found at

http://www.gfoa.org/sites/default/files/CORBA_OPEB_GOVERNANCE_AND_ADMINISTRATION_0.pdf

http://www.gfoa.org/sites/default/files/CORBA_ENSUREING_OPEB_SUSTAINABILITY.pdf

http://www.gfoa.org/sites/default/files/CORBA_GOVERNANCE_OF_PUBLIC_EMPLOYEE_POSTRETIREMENT.pdf

<http://www.gfoa.org/establishing-and-administering-opeb-trust>

portfolio may result in better risk adjusted returns, increasing the size of the fund and the financial condition of the city.

OTHER SUBSTANTIVE ISSUES

The membership of the New Mexico Municipal League at its' annual conference endorsed this legislation through the adoption of a resolution. The New Mexico Municipal League supports this legislation.

CEM/bb/je